

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 TRSE-00 OMB-01 CIAE-00 DODE-00
PM-05 H-01 INR-07 L-03 NSAE-00 NSC-05 PA-01
PRS-01 SP-02 SS-15 USIA-06 IO-13 ACDA-12 AID-05
COME-00 EB-08 FRB-03 XMB-02 OPIC-03 LAB-04 SIL-01
DOE-11 SOE-02 INT-05 AGRE-00 /129 W
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R 291613Z DEC 77

FM AMEMBASSY BERLIN

TO SECSTATE WASHDC 6365

INFO AMEMBASSY WARSAW

AMEMBASSY BELGRADE

AMEMBASSY BONN

AMEMBASSY BUCHAREST

AMEMBASSY BUDAPEST

AMEMBASSY MOSCOW

AMEMBASSY PRAGUE

AMEMBASSY SOFIA

USMISSION USBERLIN

USMISSION USNATO

C O N F I D E N T I A L SECTION 01 OF 02 BERLIN 09424

E.O. 11652: GDS

TAGS: ECON, GE

SUBJECT: VOLKSKAMMER ADOPTS 1978 PLAN AND BUDGET

REF: BERLIN 8993

1. SUMMARY: THE GDR 1978 ECONOMIC PLAN AS ADOPTED BY THE VOLKSKAMMER ON DEC. 21 CALLS FOR A RAPID GROWTH OF OUTPUT AND LIVING STANDARD IN 1978. BLUEPRINT FOR THE ECONOMY FOR THE CRUCIAL THIRD YEAR OF THE CURRENT FIVE YEAR PLANNING PERIOD, THE PLAN ADHERES TO FAMILIAR PRIORITIES, LAYING HEAVY STRESS ON INCREASED EFFICIENCY THROUGH IMPROVED MANAGEMENT, TECHNOLOGICAL PROGRESS, AND
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ECONOMIES IN USE OF FUEL AND RAW MATERIALS. THE RATE OF GROWTH OF INVESTMENT IS TO BE SLOWED SHARPLY AND A CONCENTRATED EFFORT MADE TO EXPLOIT EXISTING CAPITAL PLANT MORE INTENSIVELY AND TO CONSOLIDATE INVESTMENT PROJECTS ALREADY UNDERWAY. END SUMMARY.

2. AS FORESHADOWED AT THE SEVENTH CC PLENUM (REFTEL)

THE 1978 PLAN SETS A TARGET FOR GROWTH OF NATIONAL INCOME OF 5.2 PERCENT AGAINST THE BACKGROUND OF ACTUAL GROWTH OF 3.7 PERCENT IN 1976 AND GROWTH IN 1977 THAT WILL PROBABLY AMOUNT TO ABOUT 5 PERCENT. INDUSTRIAL PRODUCTION IS TARGETED TO RISE BY 5.7 PERCENT, CONSTRUCTION 4.3 PERCENT, AND AGRICULTURE AND FOOD INDUSTRY 3.5 PERCENT. MONEY INCOME AND RETAIL TRADE, THE TWO INDICES OF INTENTIONS IN RESPECT TO MATERIAL STANDARD OF LIVING, ARE BOTH PLANNED TO RISE 4 PERCENT, THE SAME TARGET FIGURE AS FOR THE LAST TWO YEARS. INDUSTRIAL BRANCHES SLATED FOR OUTPUT INCREASES HIGHER THAN THE AVERAGE OF INDUSTRY AS A WHOLE ARE ELECTRONICS (8.7) MACHINE TOOL AND PROCESSING MACHINERY (8.0) AND HEAVY MACHINERY (6.7). PRODUCTION OF MICROELECTRONIC COMPONENTS IS TO RISE 30 PERCENT.

3. INTENTIONS IN RESPECT TO INVESTMENT AND LABOR UTILIZATION ARE NOTEWORTHY, WITH AN ATTEMPT APPARENTLY BEING MADE TO IMPROVE CAPITAL/OUTPUT RATIOS THROUGH MORE INTENSIVE USE OF EXISTING CAPITAL STOCK AND DE-EMPHASIS OF CAPITAL ACCUMULATION. INVESTMENT AS A WHOLE IS TO RISE ONLY 2.1 PERCENT, AND IN THE AREA OF JURISDICTION OF THE INDUSTRIAL MINISTRIES BY 5.0 PERCENT. IN ORDER TO GET MORE OUT OF EXISTING CAPACITY, THE NUMBER OF PRODUCTION WORKERS WORKING ON THE BASIS OF TWO SHIFTS IS TO RISE 9.4 PERCENT AND
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THE NUMBER OF THREE-SHIFT WORKERS 6.4 PERCENT. OVER 60 PERCENT OF INDUSTRIAL INVESTMENT IN 1978 IS TO GO INTO ENERGY AND RAW MATERIALS DEVELOPMENT, INCLUDING ESPECIALLY COAL AND ENERGY, MINING, METALLURGY, POTASH, CHEMICAL INDUSTRY AND GEOLOGY.

4. ECONOMIZING ON THE USE OF FUEL AND RAW MATERIALS, ESPECIALLY IMPORTED ONES, IS A CENTRAL THEME. THE PLAN SETS A TARGET FOR REDUCTION OF SPECIFIC FUEL AND RAW MATERIALS USE BY PRODUCERS OF 4 PERCENT, INCLUDING SUBTARGETS OF INDUSTRIAL ENERGY USE 4.8 PERCENT, INDUSTRIAL USE OF ELECTRICAL ENERGY 3.0 PERCENT, ROLLED STEEL IN MACHINEBUILDING 4.7 PERCENT, STEEL IN CONSTRUCTION 3.7 PERCENT, AND CEMENT IN CONSTRUCTION, 1.9 PERCENT.

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5. PRESENTING THE PLAN TO THE VOLKSKAMMER, COUNCIL OF
MINISTERS CHAIRMAN STOPH CALLED IT A PROGRAM OF
ECONOMIC GROWTH, WELFARE, AND STABILITY THAT WILL
BE IMPLEMENTED NOTWITHSTANDING "CHANGED FOREIGN
ECONOMIC CONDITIONS," THE NOW-STANDARD FORMULATION OF
THE GDR'S TERMS OF TRADE PROBLEM. STOPH PLEDGED THE
GOVERNMENT TO IMPROVE QUALITY AND SERVICE IN THE
CONSUMER SECTOR, INCLUDING A CALL TO INCREASE THE
AVAILABILITY OF GOODS IN "ALL PRICE CLASSES," APPARENTLY
AN ALLUSION TO HONECKER'S COMMITMENT IN HIS SEPTEMBER
DRESDEN SPEECH TO MAKE LARGER QUANTITIES OF HIGHER
QUALITY MERCHANDISE AVAILABLE TO CONSUMERS AT
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CORRESPONDINGLY HIGHER PRICES. BOTH STOPH AND FINANCE
MINISTER BOEHM, SPEAKING ON THE 1978 BUDGET, STRESSED
THE EXTENT OF STATE-FINANCED SOCIAL SERVICES AND
SUBSIDIES, WHICH BOTH SAID NOW HAVE A VALUE OF 685
MARKS MONTHLY FOR A FAMILY OF FOUR.

6. IN A PASSAGE ON FOREIGN TRADE, STOPH SAID THE GDR CONTINUES TO SEEK MUTUALLY BENEFICIAL ECONOMIC RELATIONS WITH CAPITALIST COUNTRIES IN THE SPIRIT OF PEACEFUL COEXISTENCE AND HE REFERRED TO THE NEED TO ELIMINATE "OBSTACLES AND DISCRIMINATION." HE ADDRESSED DIRECTLY THE SUBJECT OF COMPENSATION (BUYBACK) TRANSACTIONS, EXPRESSING HIS APPROVAL AND CALLING ON WESTERN SELLERS OF PLANT AND EQUIPMENT TO ASSIST IN MARKETING THE OUTPUT OF PLANT PURCHASED BY THE GDR.

7. THE 1978 BUDGET ENVISIONS TOTAL REVENUE AND EXPENDITURE OF SLIGHTLY OVER 150 BILLION MARKS, INCLUDING 19.7 BILLION MARKS WHICH ARE UNDER THE CONTROL OF INDUSTRIAL PRODUCTION UNITS. THE 1978 BUDGET PROVIDES FOR 14.2 BILLION MARKS IN SUBSIDIES OF CONSUMER PRICES. SOCIAL INSURANCE PAYMENTS TO INDIVIDUALS ARE TO TOTAL 25.3 BILLION MARKS OF WHICH CONTRIBUTIONS FROM THE PUBLIC WILL AMOUNT TO 14.2 BILLION, OR 56 PERCENT OF TOTAL OUTLAYS. FOR THE SECOND YEAR RUNNING DEFENSE AND SECURITY ITEMS ARE LISTED SEPARATELY. AS PRESENTED IN THE BUDGET, DEFENSE EXPENDITURE IS PLANNED AT 8.3 BILLION MARKS, COMPARED WITH 7.9 BILLION IN 1977. EXPENDITURE ON "PUBLIC SECURITY, LEGAL AFFAIRS AND BORDER SECURITY" IS SET AT 3.3 BILLION MARKS, UP SLIGHTLY FROM 3.2 BILLION MARKS IN THE 1977 BUDGET.

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8. COMMENT: WITH THE FIVE-YEAR PLAN GOAL OF 28 PERCENT GROWTH IN NATIONAL INCOME POSSIBLY ALREADY OUT OF REACH, THE 1978 PLAN APPEARS NEVERTHELESS AN EFFORT TO REGAIN SOME OF THE MOMENTUM LOST TO BAD WEATHER AND DIFFICULTIES IN THE FOREIGN SECTOR IN THE FIRST TWO YEARS. IT EXPRESSLY REJECTS COMPROMISE OF GOALS IN RESPECT TO STANDARD OF LIVING, PROMISING IN EFFECT, THAT THE COUNTRY CAN OVERCOME BY SHEER WILL POWER THE DIFFICULTIES OCCASIONED BY CHANGES IN THE GDR'S FOREIGN ECONOMIC ENVIRONMENT. APPARENT EMPHASIS ON REDEPLOYMENT OF LABOR RESOURCES SEEMS SENSIBLE IN LIGHT OF A WIDESPREAD TENDENCY TOWARD OVERMANNING IN THE ECONOMY DESPITE THE WELL-KNOWN LABOR SHORTAGE. AS POINTED OUT BY SPEAKERS IN THE VOLKSKAMMER DEBATE, HOWEVER, INCREASED RESORT TO SHIFT WORK WILL INCREASE DEMANDS ON TRANSPORTATION AND OTHER PUBLIC SERVICES. WE NOTE THAT IT WILL PROBABLY ALSO PUSH THE WAGE BILL UP AND THE AVERAGE WORKWEEK DOWN, BOTH TENDING TO MAINTAIN PRESSURE ON THE SUPPLY OF CONSUMER GOODS. END COMMENT. BOLEN

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